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How a President Bernie Sanders Could Take on Wall Street

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How a President Bernie Sanders Could Take on Wall Street

BY
MICHAEL A. MCCARTHY

If Bernie Sanders wins the presidency, he'll confront numerous obstacles to his agenda. To overcome those obstacles, we need a strategy to take on capital, especially Wall Street — and we need to start thinking about that strategy right now.



Democratic presidential candidate and US senator Bernie Sanders speaks during the 2020 Public Service Forum hosted by the American Federation of State, County and Municipal Employees (AFSCME) at UNLV on August 3, 2019 in Las Vegas, Nevada. Ethan Miller / Getty Images

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Let's play a thought experiment: what if Bernie actually wins the presidency?

It's a thought experiment some have worked through before, and one that requires the caveat that there are enormous structural barriers to his winning. That said, imagine it: Sanders is in power. The sun is shining, babies are laughing, *Jacobin* writers are drunk off cheap champagne — we're all feeling very good.

But once Sanders is elected, there will be two connected strategic issues that democratic socialists must immediately grapple with. First, what role should social movement organizations, labor unions, and ordinary citizens play in installing and pushing through a democratic socialist agenda? How will social movements be activated to exert pressure on policymakers (potentially including Sanders himself)? How might ordinary people be incorporated into the management of new public systems and mobilized into new modes of democratic decision-making?

In other words, if Bernie wins, what will the strategy external to the state itself be?

But there is another almost equally important set of concerns: What kind of agenda should elected democratic socialists push? What kinds of programs should be pushed first? In terms of just up and down votes, what will be politically possible given the constitutional constraints and political composition of Congress? These questions concern the nuts and bolts of exercising state power in a severely limited institutional context.

That the American left has less familiarity with questions of state power is a result of its historic marginality in US politics. Cities like Milwaukee have long history of municipal socialism, with elected socialists grappling with these questions at a smaller scale. But the last time a socialist came this close to the presidency was when Eugene Debs ran from prison in 1920.

We often focus on strategy "outside" of power because we are rarely in it. If that changes, we'll need new strategies.

The American left has very sophisticated strategic thinking for developing the "outside the state" strategies: Jane McAlevey's idea of deep organizing, the rank-and-file strategy within the labor movement, and the analysis of how protests win by Frances Fox Piven and Richard Cloward most animate my own strategic vision for popular movements.

But we rarely talk about policy itself as strategically. This is a major mistake.

If Bernie wins, his administration will begin governing with the deck severely stacked against it. His democratic socialist administration would inherit the balance of class forces largely as they exist today — one where business has far more power in politics than do working people. Much like left-wing governments in the past, a Sanders administration is likely to confront obstacles to governing that might weaken or derail its program or, at worst, turn it toward austerity. How might Bernie avoid a repeat of failures of the past?

Our best bet is going into it with clear eyes about the risks. All meaningful politics, both within and outside of the state, entail real risk of failure. Politics is a calculated gamble. And for those who aim to upend entrenched power, the odds are not in their favor. That's why, on day one, a democratic socialist program would need to begin to implement changes that adjust the odds.

Along these lines, we need to develop serious political analyses of how reforms can break with the logic and power of capital. To be strategic about policy, we need to understand the degree to which policy itself can advance class struggle — and render capital less able to wage counterrevolution.

There are huge risks, but it doesn't follow that because a socialist government will likely be met with counterattacks, the only possible path forward is an insurgent confrontation with the state. I reject this view. Not only is it true that such a confrontation is an unrealistic and unpopular strategy that has never worked in any advanced capitalist democracy, it also rests on an inaccurate view of business power and the state. In the insurgent view, capital has dominant power in capitalist democracies — and that's the end of the story.

We need to go a step further in our analysis, however, and identify the conditions under which the power of corporations varies. We know business has greater power in capitalist democracies than other constituencies, but what makes the sector stronger or weaker?

Answering this question is critical. Once we understand how the power of business varies in capitalist democracies, we can then develop strategies to undermine and erode it to create greater space for more democratic forms of governance. Unionization, building rank-and-file power, and disruption are the key strategies for socialists outside of the state. But how might state policy work in coordination with this “outside” strategy?

The Power of Money

Let's first discuss some of the ways that corporations hold power in the state and might oppose a democratic socialist agenda.

The first I call “active engagement.” The most immediate way capital might counter a democratic socialist agenda is through its interpersonal connections with politicians and the civil service, campaign financing, and lobbying.

Firms (individually, sectorally, and their business associations) are deeply involved in the policymaking process. They expend staggering amounts of resources in a constant effort to directly control the state. And they tend to be better at it than workers and their organizations, because there are fewer of them and they have more money.

The second form of power is structural prominence. This concerns the political capacities that capital, a sector, or even a firm have, because of their role in the economy. In capitalist societies, where most of the work and revenue generated is through capitalist firms, politicians are dependent on those firms' regular and recurring investment in the economy to both generate tax revenue that the state needs and to make jobs available to the population. And, as the saying goes, the only thing worse than working under capitalism is not working. Workers need that private investment to feed, shelter, and clothe themselves and their families.

In the event that capitalists withdraw their investment in the economy or withhold new investments because of a bad business climate — what we call a “capital strike” — people will lose their jobs, the state will lose revenue from income taxes, and the electorate will likely blame the incumbent administration. This is a trump card that business regularly plays against socialist governments or powerful working-class movements.

But we can make changes in policy that weaken these forms of power.

First, we can limit capital's ability to directly influence politicians through things like campaign finance and lobbying reform as well as electing more democratic socialists to office. And second, capital's structural power can be weakened by making the public sector larger. Disinvestment is only an effective tool for capitalists to undermine democratic socialist programs if there aren't other sources of work in the public sector available as an alternative.

Here are some threats that a socialist government would need to preempt. The international context looms large with respect to capital's power to disinvest. Firms might not only decide to withhold investment; they might move plant and machinery assets abroad, and investors might disinvest from financial assets. This is capital flight. Because there are often real costs to moving plants, the largest first shifts in capital flight are typically financial, in capital markets. Upon election, a Sanders administration faces the potential that risk-averse investors would flee to more favorable business environments.

There is historic precedent for this. In the UK since 1945, there have been five sterling crises, with investors dumping the currency. In both 1964 and 1974, UK Labour governments led by Harold Wilson entered office on a progressive platform that promised new forms of economic planning and public investment. Yet both times, these plans were defeated by reactive economic crises caused by international investors dumping sterling-backed assets.

The move of money threatened to severely undermine the value of the pound and, as a result, broke Labour's program. When James Callaghan took up the mantle as prime minister and leader of the Labour Party in 1976, he proclaimed the death of Keynesianism at the Party conference: “We used to think you could spend your way out of a recession . . . I tell you in all honesty that that option no longer exists, and in so far that it ever did exist it worked in each occasion since the war by injecting bigger doses of inflation into the economy, followed by a higher level of unemployment at the next step.” A Sanders administration would need to develop plans to weaken the effects of a global run on the dollar.

In addition to global investors, international financial institutions can also punish left-wing governments. When Greece faced a severe debt crisis in 2015, it was the aggressively austere posture of the European Central Bank in the troika who made clear to the left-wing Syriza government that it was willing to stand by and allow runs on Greek banks and devastation in their bond market. Such an event would have only deepened the economic crisis Greece was already in, and systemic bank bankruptcies would have cut off all capital to both Greek businesses and consumers.

The Syriza government under prime minister Alexis Tsipras had ruled out an exit from the euro unequivocally as a show of its willingness to work within the EU, but the troika were set to make an example of Greeks for other EU countries to see. With the masses of Greeks opposed to further austerity measures, seen in their historic “oxi” vote but largely ignored by the party, and with bolder exit plans kept off the table, the government was disciplined from the outside and the movement demobilized and left demoralized.

Also consider France in 1981, maybe our closest analog. That year, the newly elected socialist Mitterrand government began to implement its “Programme commun” by nationalizing key sectors of the economy and redistributing downward. But these socialist changes did not clear the path for socialism.

Inflation of the dollar and the deutschmark increased the cost of imports for the socialist government, forcing severe devaluations of the franc. The import-dependent France saw consumers' ability to get the things they need on the global market rapidly dwindle. The socialist project sank in the waves of an exchange crisis largely beyond its own doing. A Sanders government might be disciplined in this manner as well, especially given the United States' dependence on imports.

Finance and Political Revolution

With respect to both corporate money in politics and structural prominence, the biggest corporate threat to a democratic socialist government is the financial sector.

Finance capitalism creates new dilemmas for working people — it generates greater macroeconomic instability, increases worker precarity, and deepens inequality. And the incredible debt that both middle-income and poor workers find themselves in is what can be called a “secondary form of exploitation” in the realm of circulation: firms lower wages to make more profits, then workers take on debt, and the interest payments on that debt are another source of profits.

The incredible size of the financial sector in our economy, and its structural power, makes us all sensitive to what it does. Not only is Wall Street the largest financial center in the world, it also

manages the vast bulk of global fund assets, 46 percent. Similarly, it plays an oversized role in politics, spending far more in lobbying than any other sector of American capital.

One line of defense that a democratic socialist administration might use is enforcing limits on the cross-border movement of financial and physical assets. This is called capital controls.

Capital controls are limits, prohibitions, or transaction taxes that help regulate the flows of financial assets in and out of a country. They were once quite common but have been largely destroyed with much of the rich capitalist world's embrace of neoliberal policies. In the European Union, for instance, they are illegal. A democratic socialist government should use them as a crucial tool for governing and guarding against capital flight.

But what if domestic firms put a hold on reinvestment and sat tight until the government fell apart? This might come as a surprise, but the financial sector itself offers new avenues for radical politics and a potential leverage against investment through slowdowns and capital strikes. The sector pours money into politics and helps staff the government with people drawn from it. It does its best to co-opt regulators; where it doesn't, finance works to stay one step ahead of them in a byzantine game of regulation. It also exercises massive structural power — a decline in stock values, because of investors dumping assets, leads to investment slowdowns and erodes people's savings in their retirement funds.

If financial flows are reallocated, they might neutralize the ill effects of disinvestment that have killed socialist experiments in the past.

Public banking is typically thought of in terms of the development strategies it might promote: financial flows might be reallocated into renewables and zero-carbon sources, worker housing, infrastructure, green tech, and public jobs. But public banking might also make socialist governments more durable if investments are strategically allocated to counter investment slowdowns.

Imagine if democratic socialist governments anticipated a capital strike by allocating investment into green jobs in areas most likely to be hit ahead of time. In such a scenario, public investment could operate like a strike fund for society against capital.

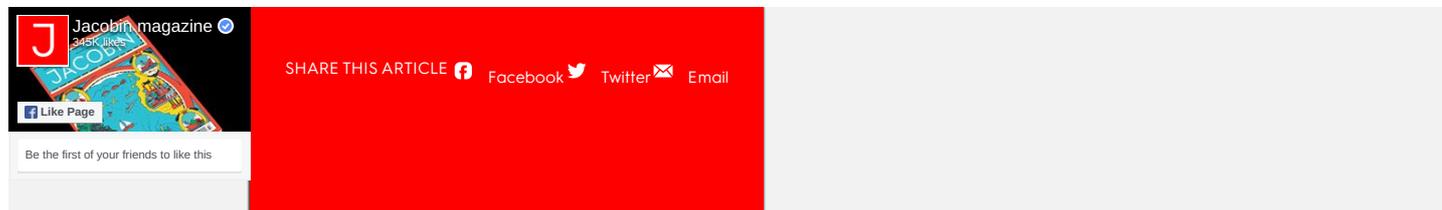
Beyond direct lobbying and interpersonal pressure, the basic tools that capital has to undermine a democratic socialist government are capital flight, capital disinvestment, or being punished by international product and capital markets. But governments are not simply helpless. They can install capital controls, direct state investment into areas hit by slowdown, issue guaranteed rates of return on investment into certain areas, use "helicopter money" from the Federal Reserve in a way similar to the one proposed by Corbyn's "People's Quantitative Easing," and regulate or socialize bank assets and manage portfolios for more social ends. And, in doing so, they would not only weaken the power of business, but they could promote an alternative just and green industrial policy.

The Inside Strategy

In other words, a Bernie Sanders presidency isn't just doomed to fail if it were to go up against the forces of capital. Bernie would have options. And while it may seem early to do so, his campaign — and the rest of the Left — would do well to start thinking about how to use those options right now.

Debate over policy reform shouldn't just concern economic feasibility but also how the reforms themselves might alter the balance of class forces. There is no royal road to democratic socialism, and the paths we have are covered in pitfalls. The best chance we have is to navigate that path with no illusions.

Finance is both our biggest enemy and our best tool. A viable democratic socialist government in the United States would need to weaken the power of Wall Street by controlling it for social ends. Thinking strategically about policy means thinking through how we can do this.



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